

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSALS SIXTEEN THROUGH TWENTY)

Docket No. RM2012-2

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL EIGHTEEN
(February 23, 2012)

The United States Postal Service hereby responds to the comments of Time Inc. on Proposal Eighteen, filed on February 3, 2012.¹ Time's substantive comments are contained in an attachment to its February 3rd pleading prepared by its consultant Halstein Stralberg.² Mr. Stralberg's comments focus on Proposal Eighteen's Periodicals Flats model, and are accompanied by library reference TI-LR-1, which contains Mr. Stralberg's revisions to the model.³

I. INTRODUCTION

At the outset of his comments, Mr. Stralberg states that his twin purposes are, first, to "identify errors that should be corrected before any conclusions are drawn based on the Proposal Eighteen model," and, second, to "raise questions that I hope the

¹ Comments of Time Inc. on Proposal Eighteen, Docket No. RM2012-2 (Feb. 3, 2012) ("Time Comments").

² Comments of Halstein Stralberg on the Serious Deficiencies of the Proposal Eighteen / ACR2011 Periodicals Flats Model, attachment to Time Comments ("Stralberg Comments").

³ TI-LR-1, References from "Comments of Halstein Stralberg on the Serious Deficiencies of the Proposal Eighteen / ACR2011 Periodicals Flats Model," Docket No. ACR2011 (Feb. 9, 2012). While the library reference was filed in Docket No. ACR2011, the accompanying notice states that the library reference is an attachment both to Mr. Stralberg's Docket No. ACR2011 comments and to his Docket No. RM2012-2 comments (which, in any case, are identical to each other). See Notice of Time Inc. of Filing of Library Reference TI LR-1, Docket No. ACR2011 (Feb. 9, 2012).

Postal Service will address.”⁴ He then discusses, in sequence, five issues regarding the model. Finally, in his conclusion, he indicates that the first issue he has raised — namely, a formulaic error in the model — relates to his first purpose of identifying errors that should be corrected before any conclusions are drawn from the model, while the four subsequent issues he has raised relate to his second purpose of posing questions that he hopes the Postal Service will answer.⁵

In the workbook contained in TI-LR-1, Mr. Stralberg suggests three modifications to the Proposal Eighteen Periodicals Flats model. The first modification relates to the formulaic error he has identified, and the other two modifications relate to other issues raised in Mr. Stralberg’s comments. Thus, following from the statements in Mr. Stralberg’s conclusion referenced above, the first modification corrects what to Mr. Stralberg is a fatal error in the model, while the latter two modifications are, to Mr. Stralberg, improvements rather than critical corrections.

The Postal Service offers this recounting of the organization of Mr. Stralberg’s submissions to clarify the implicit upshot of those submissions, an upshot that may otherwise become clouded by the myriad issues Mr. Stralberg raises and by the rather dramatic title (“Serious Deficiencies”) he employs. That is, while Mr. Stralberg believes that the Proposal Eighteen Periodicals Flats model could be improved in a number of ways, he would oppose the Commission’s adoption of it apparently only if the formulaic

⁴ Stralberg Comments, at 1.

⁵ Stralberg Comments, at 15 (“The Proposal Eighteen model should not be relied upon for conclusions about costs of FSS processing or approved for future use in periodic reporting unless the error described in Section 1 is corrected. That alone will bring the model much closer to representing the reality of Periodicals flats costs in the FSS area. In subsequent sections above, I have posed questions that the Postal Service eventually will need to answer and have suggested further model improvements that will be possible only when the Postal Service provides more complete data”).

error he has identified is not corrected. If that error is corrected, he evidently would not oppose the Commission's adoption of the model.⁶

This makes sense, given that rejecting Proposal Eighteen would mean continuing the pre-Proposal Eighteen status quo of not estimating Flats Sequencing System (FSS) costs at all. While this status quo was acceptable in previous years, when FSS was in its early implementation phases, it is no longer tenable, now that FSS has been fully deployed. With Time's implicit stance on the disposition of Proposal Eighteen clarified, the Postal Service now turns to addressing each of the five issues raised by Mr. Stralberg.

II. FORMULAIC ERROR IN THE MODEL

Mr. Stralberg helpfully identifies a formulaic error in the original versions of the Proposal Eighteen models. Specifically, within worksheets "5D" and "FSS," the formulas in cells K193, K194, W193, W194, AI193, AI194, AU193, and AU194 are divided by cell G6 (a check sum to insure that the proper number of pieces flow into and out of the model). The formulas should instead be divided by 10,000, which is the number of pieces that flow into each of the four segments of the model (BC/M, NBC/M,

⁶ In light of the mundane nature of the one real error identified by Time, the Postal Service submits that, to the extent that the Commission's finding of sufficient cause to extend the period for comments was informed by Time's claim, in its motion for an extension, of having found "major errors" and "serious deficiencies," future motions premised on similar claims should be met with some skepticism, and perhaps with inquiries into whether more customary factors may have caused the delay, such as the press of other dockets, the unavailability of key personnel, or even simply an oversight. One would assume that, if the errors identified by Time really were so significant, it would not have taken Time nearly a month after the original comment deadline (and nearly two months after the Postal Service filed the proposal) to notice them.

BC/NM, and NBC/NM). The Postal Service has corrected this error in revised versions of the Proposal Eighteen models filed on February 6, 2012.⁷

III. FINALIZATION RATE OF FSS PIECES

Mr. Stralberg observes that FY 2011 MODS data indicate that roughly 90 percent of mail pieces fed into FSS (Total Pieces Fed, or TPF) were finalized to delivery point sequence on FSS (Total Pieces Handled, or TPH), meaning, apparently, that roughly 10 percent were not finalized on FSS. He then asserts that the Proposal Eighteen model fails to properly account for the costs of pieces that are not finalized on FSS.

Mr. Stralberg speculates two primary possibilities as to what happens to pieces fed into FSS but not finalized on it. First, he states that some pieces may be re-fed into FSS after initially being rejected; however, he later surmises that it is unlikely that this is occurring with most of the rejected pieces. Second, he states that some pieces may be diverted to manual processing after being rejected by FSS; he then presumes that this possibility likely accounts for the majority of pieces that are not finalized on FSS.

Notwithstanding the above, in TI-LR-1, Mr. Stralberg suggests adding to the model an assumption that all pieces not finalized on FSS are re-fed into FSS. While he does not believe that the assumption is true or even close to true, he reasons that, because manually processing a piece would cost more than re-feeding the piece into FSS, making his modification to the model would at least create a floor for what the additional costs of such pieces are, with the presumption being that the real costs are higher.

⁷ United States Postal Service Notice of Filing of Errata to Attachment to Petition, Docket No. RM2012-2 (Feb. 6, 2012).

The Postal Service is sympathetic to Mr. Stralberg's concerns, as the difference between TPF and TPH in FY 2011 is significant. However, the Postal Service does not believe that Mr. Stralberg's assumptions regarding what causes the difference between TPF and TPH and what happens to pieces not finalized on FSS are necessarily correct. Rather, there may be other causes for the difference between TPF and TPH, and Mr. Stralberg may be mistaken as to what happens to the majority of pieces not finalized on FSS.

For example, whenever a machine is adjusted, it is common to run test pieces to verify that the machine is working properly. If such test pieces are rejected, they would be counted in TPF but not TPH. Some test pieces may in fact be rejected, re-fed, and rejected again, thereby increasing the differential between TPF and TPH. These types of occurrences are common during the introductory phases of new technologies. Similarly, given that FSS use has not yet matured, and mailers are still becoming acclimated to FSS preparation requirements, many pieces may be initially rejected but then re-fed by personnel, accepted, and finalized.

As FSS matures and personnel become more proficient in operating FSS, there should be fewer adjustments and fewer test runs, and there should also be lower reject rates in general. Therefore, over time, the difference between TPF and TPH will likely contract. Once that occurs, the Postal Service will have a clearer understanding of what occurs to pieces that are fed into FSS but not finalized on it. At that time, the Commission, the Postal Service, and other parties can determine how best to adjust the model to account for the additional costs, if any, incurred by such pieces. At the present time, however, it is more critical that the Postal Service have a model for estimating

FSS costs, and that the model be based on what the Postal Service knows to be true, rather than potentially faulty suppositions.

IV. COMPARING NON-FSS CARRIER ROUTE COSTS TO FSS CARRIER ROUTE COSTS

Mr. Stralberg compares the combined piece handling and delivery costs of FSS and non-FSS carrier route pieces and, based on this comparison, he states that the efficiency of FSS is lower than originally expected. While this is true with current cost measures, the Postal Service believes it is too early to assess the cost efficiencies of FSS. In any case, Mr. Stralberg does not suggest any changes to the Proposal Eighteen model based on the comparison. Therefore, it is not clear what relevance the comparison has to the Commission's review of Proposal Eighteen.

V. AVERAGING OF COSTS ACROSS FSS AND NON-FSS ZONES

Mr. Stralberg objects to the Proposal Eighteen model's averaging of costs across FSS and non-FSS zones. This averaging, he says, distorts the cost relationships between presort levels in non-FSS zones, given that the cost differentials among mail pieces prepared to diverse levels of sortation (e.g., Carrier Route, 5-Digit, etc.) vary between FSS and non-FSS zones. Mr. Stralberg suggests changing the model to de-average the costs, as this "will make it possible to assure that Periodicals rates are, as much as possible, based on costs."⁸

In response, the Postal Service notes that it has no plans to adjust its Periodicals price schedules to differentiate between FSS and non-FSS zones. Such a schedule would be highly complex, more costly to administer, and could well conflict with the 39 U.S.C. § 3622(c)(6) factor of simplicity for the rate schedule structure. Therefore, at

⁸ Stralberg Comments, at 11.

least for the present time, no purpose would be served by the de-averaging suggested by Mr. Stralberg.⁹

VI. DIFFERENCE BETWEEN COST POOLS AND MODELED ACTIVITIES

Mr. Stralberg rehashes comments he made in Docket No. ACR2010 regarding a supposed discrepancy between piece sorting costs reported in the Cost and Revenue Analysis (CRA) and piece sorting costs estimated by the Postal Service's models. Based on this supposed discrepancy, Mr. Stralberg again suggests applying two levels of CRA adjustments rather than the one level currently approved by the Commission.

While Mr. Stralberg recognizes that the Postal Service rebutted this line of reasoning in Docket No. ACR2010, he clearly has failed to understand the Postal Service's rebuttal, so the Postal Service will offer a concise restatement here. Mr. Stralberg's mistake stems from an apparent misunderstanding of the difference between cost pools and modeled employee activities. Cost pools are constructed to efficiently categorize the time measured by the In-Office Cost System (IOCS). Often, a cost pool is named based on the activity that is predominantly performed within that pool, even though a number of activities are contained in the pool, because it would be impossible for IOCS to separately measure every discrete activity that takes place. Thus, for example, the primary activity in a Piece Handling cost pool is piece handling, but the Piece Handling cost pool also contains activities other than piece handling.

Employee activities, on the other hand, are in fact discrete activities. The Postal Service's cost models are designed to estimate the discrete costs associated with each

⁹ The Postal Service also notes that Periodicals mail destined to FSS zones has preparation requirements that are less costly to mailers than the preparation requirements for comparable mail destined to non-FSS zones.

such activity. That a modeled employee activity has the same title as a cost pool does not mean that the associated model's calculated cost should equal the cost amounts contained in the cost pool. Therefore, any metric that purports to compare CRA costs to modeled costs is flawed, and any conclusions inferred from such a metric are erroneous. The Postal Service hopes that this brief explanation will relieve future dockets from seeing any more reprises of this mistaken line of reasoning.

In connection with his misguided advocacy of a two-level CRA adjustment, Mr. Stralberg suggests, in TI-LR-1, a modification that would reclassify the NDC FSS cost pool as piece sorting related. While this modification does not have any practical effect without the methodological change of multiple CRA adjustment factors (which, as noted, the Postal Service opposes), the Postal Service is not in principle opposed to this modification. The Postal Service simply notes that it classified the NDC FSS cost pool in accordance with approved Commission methodology.¹⁰

VII. CONCLUSION

In summary, Mr. Stralberg has helpfully identified one error in the Proposal Eighteen model, which the Postal Service has corrected. With this correction, Proposal Eighteen should be approved.

Separately, Mr. Stralberg has suggested two other modifications to the model, one that assumes that all pieces not finalized on FSS are re-fed into FSS, and another that reclassifies the NDC FSS cost pool as piece sorting related. As explained in Section III, the Postal Service opposes the former modification as premature. And, as explained in Section VI, the Postal Service does not oppose the latter modification.

¹⁰ See Order No. 920, Docket No. RM2011-12 (Oct. 21, 2011) (approving, *inter alia*, Proposal Five).

Regardless of whether the Commission accepts or rejects either or both modifications, neither go to the primary issue of whether Proposal Eighteen should be approved or rejected.

Apart from the three modifications, Mr. Stralberg raises three other issues, to which the Postal Service has responded in Sections IV, V, and VI. Again, none of these issues affect the ultimate disposition of Proposal Eighteen. Accordingly, the Postal Service requests that the Commission approve Proposal Eighteen and the other proposals under review in this docket and incorporate them into the forthcoming Annual Compliance Determination.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1135
(202) 268-7178; Fax -5402
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